

FOREIGN POLICY REPORTS

The Outlook for Soviet-American Trade

August 1, 1934

Vol. X, No. 11

25¢
a copy

Published Fortnightly
by the

\$5.00
a year

FOREIGN POLICY ASSOCIATION
INCORPORATED
EIGHT WEST FORTIETH STREET
NEW YORK, N.Y.

THE OUTLOOK FOR SOVIET-AMERICAN TRADE

by

VERA MICHELES DEAN

with the aid of the Research Staff of the Foreign Policy Association

CONTENTS

	PAGE
THE WASHINGTON NEGOTIATIONS	135
THE EXCHANGE OF NOTES	136
UNSETTLED QUESTIONS: DEBTS AND CREDITS	137
THE CREDIT DEADLOCK	138
TO PAY OR NOT TO PAY?	140
SOVIET COUNTER-CLAIMS	142
PRIVATE AMERICAN CLAIMS	143
APPENDIX	144

INTRODUCTION

THE renewal in Washington on July 25 of Soviet-American negotiations regarding settlement of debts and claims represents a determined attempt to eliminate a problem which has threatened to embitter relations between the two countries. It is reported that the U.S.S.R. has offered to pay a lump sum, to be determined by agreement, which would liquidate the debt of the Provisional government and the claims of American nationals. This sum, however, would not be paid outright, but would gradually be collected by the United States in the form of additional interest paid by the Soviet government on American credits, which the U.S.S.R. wishes to secure as an integral part of the debt settlement. The Washington negotiations are consequently expected to concentrate on two points: the amount which the Soviet government is willing to pay and the United States is ready to accept in liquidation of debts and claims, and the sum which the American government is prepared to advance to the Soviet Union in the form either of a loan or of long-term credits for Soviet purchases in this country. It is hoped that a settlement of debts and claims will break the deadlock which has occurred in Soviet-American relations since recognition of the Soviet government by the Roosevelt administration in November 1933.

Pressed with the necessity of solving urgent domestic problems, and reluctant to alienate Congress as well as the American Federation of Labor and other powerful anti-Soviet groups, President Roosevelt made no immediate attempt to cope with the problem of Soviet recognition which he had inherited from successive Republican administrations. He was far less reluctant than his predecessors, however, to take steps which might conceivably be interpreted as recognition. On May 16, 1933, when he addressed to the heads of fifty-four states a cabled message urging limitation and reduction of armaments and the conclusion of "a solemn and definitive pact of non-aggression," Michail Kalinin, President of the Central Executive Committee of the U.S.S.R., was included among the recipients. The Roosevelt message was warmly greeted in the Soviet Union. In his reply of May 19 Kalinin stated that the Soviet government had always supported disarmament and non-aggression, and intended to cooperate with all governments interested in a policy of peace, both at the Geneva Disarmament Conference and at the World Economic Conference to be held in London.¹ *Izvestia* declared that, while the U.S.S.R. was the land of socialism, it would be ready to support those

1. For text of President Kalinin's reply, cf. *Izvestia*, May 20, 1933.

FOREIGN POLICY REPORTS, VOL. X, NO. 11, AUGUST 1, 1934

Published by-weekly by the FOREIGN POLICY ASSOCIATION, Incorporated, 8 West 40th Street, New York, N. Y., U. S. A. RAYMOND LESLIE BUELL, President; WILLIAM T. STONE, Vice President and Washington representative; VERA MICHELES DEAN, Editor; HELEN TERRY, Assistant Editor. Research Associates: T. A. BISSON, VERA MICHELES DEAN, HELEN H. MOORHEAD, ONA K. D. RINGWOOD, MAXWELL S. STEWART, CHARLES A. THOMSON, M. S. WERTHEIMER, JOHN C. DEWILDE. Subscription Rates: \$5.00 a year; to F. P. A. members \$3.00; single copies 25 cents. Entered as second-class matter on March 31, 1931 at the post office at New York, N. Y., under the Act of March 3, 1879.

capitalist states which sought, for one reason or another, to consolidate world peace or remove obstacles to trade relations. It took occasion to point out to the United States that the Soviet Union did not strive for autarchy, but wanted to exchange its products for those of other countries.²

This argument was further developed at the World Economic Conference by M. Litvinov, Soviet Foreign Commissar, who announced on June 14 that his government was ready to place orders for raw materials and manufactured goods totaling \$1,000,000,000, provided capitalist states extended long-term credits and refrained from boycotting Soviet exports. As a corollary, he proposed the conclusion of economic non-aggression pacts which would bar all trade discrimination.

THE WASHINGTON NEGOTIATIONS

The failure of the World Economic Conference to reach a decision on any of the important questions on its agenda—due in part to President Roosevelt's refusal to discuss tariff and monetary questions pending the application of national recovery measures—materially improved the prospects for Soviet recognition. Dubious regarding the possibilities of international trade cooperation, the United States turned to bilateral negotiations with countries which offered a market for American goods—notably Latin America and the Soviet Union. Public opinion in the United States was consequently prepared for the publication on October 20, 1933 of notes exchanged by President Roosevelt and President Kalinin, which reopened official intercourse between the two countries.

In a note of October 10 addressed to Kalinin,³ President Roosevelt had stated that since the beginning of his administration he had examined the desirability of ending "the present abnormal relations between the hundred and twenty-five million people of the United States and the hundred and sixty million people of Russia." He regretted that two great peoples, "between whom a happy tradition of friendship existed for more than a century to their mutual advantage, should now be without a practical method of communicating directly with each other," and declared that the difficulties which had created this "anomalous situation" were serious but "not insoluble," and could be removed "by frank, friendly conversations." He expressed readiness to receive Soviet representatives

tion by one state against another.³ Litvinov's overtures met with immediate response in the United States. The American delegates to the World Economic Conference had been instructed not to shun their Soviet colleagues, as had happened at previous international gatherings; and informal social contacts were established between the two delegations. Meanwhile, negotiations carried on by Soviet trade representatives in this country with the administration in Washington were successfully concluded on July 2, when the Reconstruction Finance Corporation authorized loans totaling \$4,000,000 to American exporters to finance the sale of from 60,000,000 to 80,000,000 bales of cotton, which were to be purchased and shipped by the Amtorg Trading Corporation.⁴

and explore with them all questions outstanding between the two countries. Participation in such discussions, he added, "would, of course, not commit either nation to any future course of action, but would indicate a sincere desire to reach a satisfactory solution of the problems involved." On October 17 President Kalinin accepted the Roosevelt invitation, stating that lack of Soviet-American relations had had an unfavorable effect not only on the interests of the two countries, "but also on the general international situation," and informed President Roosevelt that M. Litvinov had been named to represent the Soviet government in the forthcoming negotiations,⁵ which opened at Washington on November 8.

The length of these negotiations—which, according to a remark made by M. Litvinov in Berlin on his way to the United States, could have been completed in "half-an-hour"—caused surprise and even anxiety in some quarters, where it was thought that the Roosevelt administration might insist on conditions unacceptable to the Soviet government. President Roosevelt, however, was apparently determined not to give the impression of undue speed, and to adjust the disputed questions of debts, claims, propaganda, religious liberty and legal protection of American nationals before recognition, thus leaving no loophole for criticism by anti-Soviet groups in this country.

Ten days of uninterrupted and closely-guarded negotiations culminated on November 16 in the establishment of diplomatic relations between the United States and the Soviet Union,⁶ effected by an exchange of ten notes between President Roosevelt and M. Litvinov. On the following day the Presi-

2. "Postlanye Roosvelta i S.S.S.R." (The Roosevelt Message and the U.S.S.R.), *Ibid.*, May 21, 1933.

3. League of Nations, *Journal of the Monetary and Economic Conference*, London, 1933, June 15, 1933, p. 27.

4. *New York Times*, July 3, 1933. The Amtorg Trading Corporation has arranged for repayment of this loan in installments during July and August.

5. Department of State, *Establishment of Diplomatic Relations with the Union of Soviet Socialist Republics* (Washington, Government Printing Office, 1933), p. 1.

6. *Ibid.*

7. *Ibid.*, p. 4.

dent announced that William C. Bullitt had been appointed first American Ambassador to the U.S.S.R. It will be recalled that Mr. Bullitt had been sent to Russia in 1919 by the American delegation to the Paris Peace Conference, and had made a favorable report regarding political and economic conditions under Soviet rule. This report was never formally submitted to the Peace Conference nor was it published at that time. Following the advent of the Roosevelt administration, Mr. Bullitt was appointed to the State Department and played an active part both in unofficial Soviet-American talks at the World Economic Conference and in the Roosevelt-Litvinov negotiations.

THE EXCHANGE OF NOTES

The Roosevelt-Litvinov notes were devoted chiefly to the questions of propaganda and of the rights which American citizens were to enjoy in the Soviet Union. The pledges given by Litvinov regarding Communist propaganda were more explicit and far-reaching than those obtained by other Western states. The Soviet government undertook⁸ "to respect scrupulously the indisputable right of the United States to order its own life within its own jurisdiction in its own way and to refrain from interfering in any manner in the internal affairs of the United States, its territories or possessions." While the Third International was not mentioned by name, the U.S.S.R. promised "to restrain all persons in government service and all organizations in receipt of any financial assistance from it, from any act overt or covert liable in any way whatsoever to injure the tranquillity, prosperity, order, or security of the whole or any part of the United States . . . and, in particular, from any act tending to incite or encourage armed intervention." The Soviet government also undertook "not to permit the formation or residence on its territory of any organization or group—and to prevent the activity on its territory of any organization or group, or of representatives or officials of any organization or group—which has as an aim the overthrow or the preparation for the overthrow of, or the bringing about by force of a change in, the political or social order of the whole or any part of the United States, its territories or possessions." The pledges given by M. Litvinov were reiterated verbatim in a note addressed to him by President Roosevelt.⁹

The attitude of the Soviet government toward organized religion also received close attention in the Washington negotiations. In reply to President Roosevelt's detailed statement regarding the rights to freedom of wor-

ship enjoyed by American nationals "in all the major countries of the world,"¹⁰ Litvinov declared that his government was ready, immediately following the establishment of diplomatic relations, to grant American nationals full rights with respect to freedom of conscience and free exercise of religion, and to embody these rights in a consular convention.¹¹

Opponents of recognition had argued that American nationals would receive insufficient legal protection in the Soviet Union, pointing out that the Soviet government had arrested six British engineers in 1933 on charges of economic espionage and had refused to admit British counsel at their trial. President Roosevelt met this argument by stating in a note to M. Litvinov that "American diplomatic and consular officers in the Soviet Union will be zealous in guarding the rights of American nationals, particularly the right to a fair and public trial and the right to be represented by counsel of their own choice."¹² No pledge, however, was made by Litvinov on this point. In reply to a question of the President regarding prosecutions for economic espionage, Litvinov gave a comprehensive, if negative, definition of the activities which, according to Soviet law, fall into the category of espionage.¹³ The Soviet government also agreed that, preparatory to a final settlement of claims and counter-claims, it would take no steps to enforce any decisions of courts or initiate any new litigations for the amounts admitted to be due or which may be found to be due to it as successor of prior governments, or otherwise, from American nationals, nor object to such amounts being assigned. At the same time it released and assigned such amounts, estimated at \$20,000,000, to the United States government, asking only to be notified in each case of any amount realized by the United States from such release and assignment. Finally, the Soviet Foreign Commissar stated that, following examination of certain documents relating to the period 1918-1921, the Soviet government had decided to waive all claims arising out of American intervention in Siberia. This waiver, however, did not cover Soviet claims concerning the American expedition to Archangel.¹⁴ The Soviet Union thus recognized that, both in the course of intervention and at the Washington Conference of 1921, the United States had not only made no attempt to appropriate Russian territory but had vigorously opposed Japanese encroachments on Siberia.

10. *Ibid.*, p. 7.

11. *Ibid.*, p. 8.

12. *Ibid.*, p. 12.

13. *Ibid.*

14. *Ibid.*, p. 15.

8. *Ibid.*, p. 5.
9. *Ibid.*, p. 6.

The notes made no reference to the situation in the Far East, and it was authoritatively denied that the subject had been explored in the Washington negotiations. The appointment of Alexander Troyanovsky, Soviet Ambassador to Tokyo until January 1933, as first Soviet Ambassador to Washington indicated, however, that the Soviet government attached paramount importance to cooperation with the United States for maintenance of peace in the Far East. This aspect of recognition was also stressed by President Roosevelt at Savannah on November 18, when he said that "the most impelling motive" of Soviet-American conversations was "the desire of both countries for peace and for the strengthening of the peaceful

purposes of the civilized world."¹⁵ Moreover Litvinov, on departing from the United States, addressed a letter to President Roosevelt in which he expressed the hope that the establishment of official Soviet-American relations would "be conducive to the strengthening and preservation of peace between nations towards which our countries are sincerely striving," and his belief that their joint efforts would "add a creative factor in international affairs which will be beneficial to mankind."¹⁶ In reply President Roosevelt declared on November 23 that "the cooperation of the two governments in the great work of preserving peace should be the cornerstone of an enduring friendship."¹⁷

UNSETTLED QUESTIONS: DEBTS AND CREDITS

While the Roosevelt-Litvinov negotiations not only succeeded in establishing diplomatic relations between the United States and the Soviet Union but laid a basis for the friendly development of these relations, they led to no official agreement regarding settlement of debts and claims or extension of credits for Soviet purchases. In a joint statement issued on November 16, President Roosevelt and M. Litvinov expressed the hope that a speedy and satisfactory solution of all outstanding questions of indebtedness and claims would be reached, and announced that the Soviet Foreign Commissar would remain in Washington for several days to continue discussions on this subject.¹⁸ It was thought at the time that these discussions would promptly lead to a settlement which would clear the way for extension of credits to the Soviet government. When M. Litvinov left the United States on November 25, however, he had only reached an understanding with the American government that conversations would be continued at a later date. The two questions of debts and credits which have periodically hampered Soviet relations with other Western states thus remained to be solved.

It had been generally acknowledged before recognition that the Soviet Union needed not only manufactured products of all kinds but consumers' goods and technical assistance as well. Soviet trade representatives and the less sanguine among American business men, however, had pointed out that recognition would not automatically increase Soviet-American trade unless the Soviet government received substantial long-term credits

in this country. They had also stressed the fact that repayment of credits would present a number of difficulties. The Soviet Union, which has bought on credit for a number of years in Europe, has hitherto scrupulously fulfilled its financial obligations. But in the long run it could repay substantial American credits only by two methods: either by increasing sales in the United States or elsewhere, or by the export of gold. In 1930, the boom year of Soviet-American trade, American exports to the U.S.S.R. had been nearly five times the value of our imports from that country, and the Soviet government had paid for its purchases with the proceeds of sales in Great Britain and other countries with which it had a favorable balance of trade. The United States cannot depend on indefinite continuance of this situation. Great Britain, France and Italy have already concluded agreements looking toward equalization of their balance of payments with the Soviet Union by an increase in Soviet purchases of their goods. If the United States wishes prompt repayment of credits through the ordinary channels of trade, it will have to facilitate imports from the U.S.S.R. Increased export of Soviet gold might offer a more direct method of meeting Soviet obligations in the United States. While Soviet gold production in 1933 was double that of pre-war years, and production for the first quarter of 1934 was 67 per cent higher than that for the corresponding period of 1933, further expansion of Soviet gold production depends on the importation of mining apparatus which the Soviet government had hoped to purchase in this country. Soviet trade representatives have meanwhile reiterated that the U.S.S.R. will not undertake financial obligations it might eventually find it difficult or impossible to meet.

Pending a settlement of debts and claims,

15. Department of State, *Press Releases, Addresses by the President, Georgia Bicentennial Celebration*, November 25, 1933, p. 277.

16. Department of State, *Establishment of Diplomatic Relations with the Union of Soviet Socialist Republics*, cited, p. 19.

17. *Ibid.*, p. 20.

18. *Ibid.*

Soviet-American trade has made but halting progress. True, purchases by the Amtorg Trading Corporation for the first quarter of 1934 totaled \$2,190,000, or over four times the total for the corresponding period of 1933—\$532,000. Soviet orders during the six months' period from October 1933 to March 1934, however, averaging a little less than \$1,200,000 a month, were at only one-ninth the rate of the purchasing operations in 1929-1930, when they averaged over \$10,700,000 monthly.^{18a}

THE CREDIT DEADLOCK

From the start the question of credits proved a stumbling-block. American banking institutions, shaken by world-wide defaults and bankruptcies, hesitated to extend long-term credits for Soviet purchases; and it was evident that, if trade with the Soviet Union were to be developed to any marked extent, the American government would have to play an important part in its financing. Since July 1933 the Reconstruction Finance Corporation and the Farm Credit Administration had been negotiating with the Amtorg Trading Corporation for the sale of cotton and copper to the Soviet Union, and such enthusiasts as former Senator Brookhart had mentioned the sum of \$200,000,000 as the possible total of credits to be granted by the United States. The issue remained in abeyance, however, until February 12, 1934, when Jesse H. Jones, Chairman of the R.F.C., announced the establishment of a bank to finance foreign trade.¹⁹ This institution, known as the Export-Import Bank of Washington, was chartered in the District of Columbia. Its charter²⁰ stated that it had been formed "to aid in financing and to facilitate exports and imports and the exchange of commodities between the United States and other nations or the agencies or nationals thereof." The bank was to have an initial capital of \$11,000,000. Emergency funds available through the National Industrial Recovery Act were to provide \$1,000,000 for the purchase of common stock, while the R.F.C. was to subscribe \$10,000,000 in preferred stock. As additional capital was needed, it was to be obtained through the purchase of more preferred stock by the R.F.C. or by borrowing from the R.F.C. or other banks. The charter provided the bank with general banking powers, but Mr. Jones stated that the bank's first task would be to facilitate trade with the Soviet Union by guaranteeing or indorsing all or part of transactions made with that country. It was under-

stood by the Washington administration that the bank would begin to function only after a settlement of debts and claims. The bank was to share the risks of Soviet trade with American exporters by underwriting portions of credits extended by the latter for terms ranging from one to three or four years. It was to place its loans with purely domestic concerns and permit them to extend credits to foreign purchasers. While the original capitalization of the bank did not indicate that large transactions would be undertaken at first, it was expected that the bank would finance considerable exports of agricultural products and cotton, thus relieving the glut of these commodities on the American market. On February 26 George N. Peek, foreign trade adviser to President Roosevelt, who had favored an aggressive campaign for the export of American goods, accepted the presidency of the Export-Import Bank.²¹

Soviet trade representatives in the United States were disappointed by the relatively short-term character of the credits contemplated by the bank. They asserted that, since all Soviet economic plans are based on a five-year schedule, credits for Soviet purchases should be extended for periods of at least five years.

The hopes of Soviet trade representatives and American manufacturers for the rapid development of trade, already dampened by the program of the Export-Import Bank and the manner in which even this limited program was made contingent on settlement of debts and claims, received a further setback with the passage of the Johnson Act, which President Roosevelt signed on April 13. This act reads as follows:

"Hereafter it shall be unlawful within the United States or any place subject to the jurisdiction of the United States for any person to purchase or sell the bonds, securities, or other obligations of any foreign government or political subdivision thereof or any organization or association acting for or on behalf of a foreign government or political subdivision thereof, issued after the passage of this act, or to make any loan to such foreign government, political subdivision, organization, or association, except a renewal or adjustment of existing indebtedness while such government, political subdivision, organization or association is in default in the payment of its obligations, or any part thereof, to the government of the United States. Any person violating the provisions of this act shall, upon conviction thereof, be fined not more than \$10,000 or imprisoned for not more than five years, or both."

"As used in this act the term 'person' includes individual, partnership, corporation or association other than a public corporation created by or pursuant to special authorization of Congress, or a corporation in which the government of the United States has or exercises a controlling interest through stock ownership or otherwise."

18a. *Economic Review of the Soviet Union*, April 1934, p. 85; "Foreign Trade of the Soviet Union, January-March 1934," *Commerce Reports*, July 14, 1934, p. 30-31.

19. *New York Herald Tribune*, February 13, 1934.

20. District of Columbia, *Certificate of Incorporation of Export-Import Bank of Washington*, No. 22430.

21. *New York Times*, February 27, 1934.

Although, according to paragraph 2 of the Johnson Act, the Export-Import Bank, as a public corporation, clearly did not fall within the scope of the act, the board of the bank had passed a resolution on March 16 declaring that "no actual credit transactions with the Soviet government shall be undertaken unless and until that government shall submit to the President . . . an acceptable agreement" regarding Russian debts.²² This resolution was designed to prevent the possible elimination by Congress of paragraph 2 of the Johnson Act, which had been inserted in order to permit the bank to function as soon as a debt and claim settlement had been reached and approved by the President.

There is little doubt that many Congressmen had favored passage of the Johnson Act not only because they wished to force foreign debtors in general to settle their indebtedness but because they specifically opposed government assistance in the financing of Soviet trade.²³ Representative Fish declared he had received assurances from the State Department that, until the Soviet government had adjusted its debts to the satisfaction of the President, no loans would be made to the U.S.S.R., adding:

"To me it would be an abomination of desolation to throw away good American money in order to build up Communism in Soviet Russia . . . If we finally do commit the tragic blunder of using the money belonging to the American taxpayers, who are already the forgotten men of this administration, to squander on Soviet Russia, it would only prove the statement of Lenin, the founder of Russian Communism, that the capitalists will commit suicide for temporary profit. The only difference in this case would be that the 'brain trust' have no love for capitalism either, but have a great affection for Soviet Russia and all its works."²⁴

Several Congressmen were nevertheless alarmed by the possible implications of paragraph 2, which clearly would have allowed operations by the Export-Import Bank. Senator Johnson, author of the bill, said that he had added this paragraph at the insistence of the administration in order to obtain its support for the bill as a whole. Representative Britten argued that, in this paragraph, the government "was leaning backward to do something for Russia which they refused to do for other countries." "Why should Russia," he continued, "be singled out as a special or preferred customer? . . . She has no more ability to buy from us than poor old China has and it will be apparent that Russian purchases of us will depend entirely upon the amount of money she can borrow from us . . . Her credit is not good and her promises to pay are of uncertain value . . .

22. Arthur Krock, *New York Times*, April 18, 1934, p. 18.
23. United States, *Congressional Record*, 73rd Congress, 2nd Session, Vol. 78, April 4, 1934, p. 6200.
24. *Ibid.*, p. 6192.

If it were not for the influence of a group of socialistic men surrounding the President, this section 2 would never be in the bill before us . . . With the passage of this bill, Russia becomes our most-favored-nation. A truly startling state of affairs."²⁵

Representative McReynolds, chairman of the House Committee on Foreign Affairs, who represented the administration during passage of the bill through the House, reassured his colleagues regarding the effect of paragraph 2. He quoted the Export-Import Bank resolution of March 16, and declared that the Soviet government must agree to settle its indebtedness if the bank was to undertake transactions in connection with Soviet trade.²⁶ A similar view was taken by Attorney General Cummings on May 5 in the opinion he delivered at the request of the State Department regarding the Johnson Act. He stated that the Soviet Union was in default within the meaning of the act, and that he was aware of no principle of law under which a previously existing default was waived or overcome "because of the mere pendency of negotiations 'with a view to arriving at the amount of the indebtedness due,' assuming that there is any uncertainty in this regard, although, of course, the matter might be affected by the outcome of any such negotiations."²⁷

The deadlock in credit negotiations aroused profound resentment in the Soviet Union, where the Export-Import Bank resolution and the Attorney General's interpretation of the Johnson Act were regarded as unfriendly gestures, intended to put pressure on the Soviet government with respect to debts. *Za Industrializatsiu*, organ of the Commissariat of Heavy Industry, declared that, if the Export-Import Bank had hoped to obtain concessions from the Soviet Union by its resolution, its expectations were doomed to disappointment. It pointed out, moreover, that the Soviet government, working under five-year plans, found it necessary to place orders far in advance, and that it had received excellent credit opportunities in countries other than the United States.²⁸ This argument was emphasized on May 27 by A. P. Rosengoltz, People's Commissar of Foreign Trade, who stated that the Soviet Union had succeeded in drastically reducing its imports despite the growth of construction and production programs, and would make no further large purchases abroad unless credit conditions were radically altered and improved. He also indicated that the

25. *Ibid.*, p. 6198.

26. *Ibid.*, p. 6200.

27. Department of State, *Press Releases*, May 5, 1934, p. 259.

28. "K Perspektivam Sovetskogo-Amerikanskoi Torgovli" (Regarding the Future of Soviet-American Trade), *Za Industrializatsiu*, April 17, 1934.

Soviet government might transfer to Great Britain orders it had previously planned to place in the United States.²⁹ That this was no idle statement is indicated by the fact that in the first three months of 1934 Soviet orders placed in Great Britain totaled £2,226,317, representing an increase of 70 per cent over the corresponding period of the previous year. Among the most important items purchased by the Soviet Union were rubber, orders for which were nearly four times larger than those in 1933, non-ferrous metals, machinery, steel, textiles and tea. Soviet charterings of British vessels also rose from twenty-six in March 1933 to forty-two in March 1934.

TO PAY OR NOT TO PAY?

That the Soviet government was nevertheless anxious to reach some settlement of the debt question was indicated by *Za Industrializatsiu* in an editorial of April 28. The editorial declared that "Soviet economic circles do not doubt that American initiative toward regulating the difficulties which have arisen will be cordially received in Moscow," and expressed the hope that President Roosevelt, by personal intervention, would settle a problem which inelastic government institutions had failed to solve. It argued that the bulk of the so-called Kerensky credits had not been transferred abroad but had remained in the United States, and that the American government should have sequestered that sum and applied it to repayment of Russian indebtedness. Instead, said the editorial, M. Bakhmeteff, representing the defunct Provisional government, had been permitted to utilize the balance of the Kerensky credits to meet the expenses of his embassy and to arm and finance White Russian armies struggling against the Soviet régime. "Will the laboring masses of the U.S.S.R. be asked to pay for the bullets with which they were shot?" inquired the editorial, and answered: "No, we have too high an opinion of the sense of justice of the American people and of the political intuition of President Roosevelt to admit this."³⁰

It will be recalled that, following American recognition of the Provisional government on March 22, 1917, the United States had extended credits totaling \$325,000,000 to M. Bakhmeteff, who had been received in Washington as Ambassador of the Provisional government. Cash advances made against these credits up to November 20, 1917, when credits were discontinued, totaled \$187,729,750, and constituted the principal of the so-called Kerensky debt to the United States.

29. *Izvestia*, May 28, 1934.

30. "Eshe o Sovetskno-Amerikanskoi Torgovle" (Once More Regarding Soviet-American Trade), *Za Industrializatsiu*, April 28, 1934.

For these advances the United States received obligations of the Provisional government, which was overthrown on November 7, 1917.³¹ With interest this debt now totals \$322,711,524.

Of the total amount drawn against these credits by M. Bakhmeteff and M. Ughet, Russian financial attaché, \$125,000,000 was transferred by the Russian Ambassador to the account of the Russian Ministry of Finance at Petrograd, and only the balance of about \$62,000,000 was retained for expenditure in this country.³² In November 1917 the bank balances of the Provisional government in the United States totaled about \$56,000,000. "These funds consisted of cash, and it is impossible to say how far they consisted of the \$21,000,000 which the Russians had before the United States began making advances" to them, and "how far they consisted of the proceeds of advances" by the Treasury.³³ In liquidating these funds, the American government had been guided by two considerations: first, to prevent as far as possible actual losses to American contractors; second, to save for Russia as much as possible of the supplies which had been contracted for.³⁴ With these considerations in mind, the State Department and the Treasury had made arrangements with M. Bakhmeteff, whereby he had deposited about \$47,000,000 of this \$56,000,000 with the National City Bank of New York in a liquidation account subject to his disposal. This money was to be devoted to the general liquidation of Russian obligations in the United States. In accordance with an understanding reached with the National City Bank, no withdrawals were to be made from the liquidation account unless the bank had first notified the Treasury and had ascertained whether the latter objected to the particular disbursement proposed.

From December 1, 1917, when the liquidation account was opened, to March 4, 1921, when it was closed, additional deposits were made aggregating \$29,000,000. These funds resulted from the sale of Russian property in this country and the charter hire for certain Russian ships. The total amount deposited in the liquidation account thus aggregated \$76,000,000, and total disbursements for that period reached the same sum. These dis-

31. Aide-Mémoire submitted by M. Boris Bakhmeteff, Russian Ambassador to Washington, United States, 67th Congress, 2nd Session, 1921-1922, *Senate Documents*, Vol. I, Document No. 86, "Loans to Foreign Governments" (Washington, Government Printing Office, 1921), Section 48, *Russia*, p. 86, at p. 95. Cf. also Mr. Mellon, Secretary of the Treasury, to Mr. Hughes, Secretary of State, June 2, 1922. *Annual Report of the Secretary of the Treasury on the State of the Finances for the Fiscal Year Ended June 30, 1922* (Washington, Government Printing Office, 1923), p. 284.

32. Mr. Mellon to Mr. Hughes, June 2, 1922, cited.

33. Treasury Department memorandum for Mr. Leffingwell, Assistant Secretary of the Treasury, June 28, 1919, "Loans to Foreign Governments," cited, p. 94.

34. *Ibid.*

bursements, according to M. Bakhmeteff, had been made for supplies, transportation, storage, inspection, interest on loans by the United States government and on private loans floated in this country, salaries and upkeep of the Russian Embassy and consulates and other Russian institutions. Contracts with American manufacturers had meanwhile been settled by payment, cancellation and other means, without loss to American interests. On February 14, 1921 M. Bakhmeteff informed the Treasury that the liquidation of the outstanding liabilities of the Provisional government in the United States had for the most part been completed; and the liquidation account was closed on March 4, 1921, when the balance, amounting to \$70,426.34, was paid into the Treasury and applied on account of interest due and payable on Russian obligations held by the United States. Further sums aggregating \$337,766.73, realized chiefly from sales of Russian government property, were paid into the Treasury between March 4, 1921 and June 2, 1922, and similarly applied to interest due on Russian obligations.³⁵

Reports made to the Treasury by M. Bakhmeteff and M. Ughet for the period from April 6, 1917, when the United States entered the World War, to March 4, 1921, when the liquidation account was closed, showed that disbursements totaled \$231,000,000 and covered such items as munitions, exchange and cotton purchases, and other supplies. Since M. Bakhmeteff had retained only \$62,000,000 of the Kerensky credits, it appeared that he had expended \$169,000,000 drawn from other Russian funds in this country. The Soviet government contends that the latter sum should have been sequestered by the United States and applied to repayment of the Kerensky debt.³⁶ The United States, however, was not in a position to sequester the property of a government which it then recognized and whose eventual success it still hoped to witness. The Soviet argument, moreover, disregards the fact that a portion, at least, of this sum was paid by M. Bakhmeteff for supplies contracted for by the Provisional government before its fall, and payment of which the United States was determined to assure.

The Senate investigation of loans to foreign governments, held in 1921, emphasized two important aspects of the Provisional government's debt and of subsequent financial transactions between the United States and M. Bakhmeteff. First, the United States had not applied certain sums it owed the Provisional government to repayment of the

Kerensky debt. Thus it had purchased from the Provisional government, after its overthrow, war munitions previously contracted for by that government; but, instead of paying the purchase price of \$11,000,000 into the United States Treasury, had deposited it with the National City Bank to M. Bakhmeteff's account. Similarly, when the Shipping Board had chartered certain vessels belonging to the Provisional government, it had paid \$1,400,000 for these vessels and had turned the money over not to the Treasury but to the National City Bank. Soviet leaders contend that the United States should not have permitted the representative of a defunct government to receive moneys owing to the Russian state, and should have applied them, instead, to payment of Russia's debts. It may again be argued, however, that as long as the United States continued to recognize M. Bakhmeteff as Russia's accredited representative it was under obligation to place Russian state property at his disposal.

Second, the funds disbursed by M. Bakhmeteff from the liquidation fund in the National City Bank had been applied to purposes which the Soviet régime could not but regard as inimical. According to M. Bakhmeteff's report, he had expended approximately \$2,500,000 for the upkeep of the Russian Embassy, two or three consulates and other offices in the United States. He had given financial aid in 1918 to Provisional government representatives in Norway and Belgium. He had utilized \$100,000 for the expenses of a Russian delegation to the Paris Peace Conference in 1919. Most important of all, he had stated that "shipments of supplies to Russia had been resumed in the latter part of 1918 and continued in 1919. On January 1, 1920 practically the whole of the stocks, of which the greater part consisted of railway material, shoes, leather and agricultural implements, had been shipped to Siberia, to the south and into the northern regions of Russia."³⁷ This statement, in Soviet opinion, clearly shows that M. Bakhmeteff had utilized a portion, at least, of the Provisional government credits to assist White armies in North and South Russia and in Siberia. This contention is supported by the fact that M. Bakhmeteff represented not only the Provisional government but, after its overthrow, the short-lived régimes of Kolchak and Wrangel.³⁸ That this material was sent to Russia with the knowledge and assistance of the United States is not disputed. The United States, according to Mr. Lansing, Secretary of State, was in favor of assisting the Russian authorities in this country to

35. Mr. Mellon to Mr. Hughes, June 2, 1922, cited.
36. "Eshe o Sovetskoi-Amerikanskoi Torgovii" (Once More Regarding Soviet-American Trade), cited.

37. Aide-Mémoire of M. Bakhmeteff, cited.

38. "Loans to Foreign Governments," cited, p. 90.

ship "non-warlike" stores, on the ground that "it would be extremely unfortunate for the Russian people to receive the impression that they are being abandoned by the Allies and the United States."³⁹ The Soviet government argues that a portion of the Provisional government credits, estimated at \$50,000,000, was used for the destruction of Soviet lives and property, that the United States should have prevented M. Bakheteff from applying the credits to such purposes, and that the Soviet people can under no circumstances be expected to repay moneys which went for the equipment of anti-Soviet forces.⁴⁰ The United States, however, had no authority to prevent the representative of a recognized government from using that government's property for such purposes and in such manner as he saw fit.

In this connection the Soviet government also points out that paragraph 4 of the Fourteenth Amendment to the American Constitution provides that "neither the United States nor any state shall assume or pay any debt or obligation incurred in aid of insurrection or rebellion against the United States"—arguing that the Soviet Union is justified in applying the same principle. This argument, while essentially logical, can hardly be said to strengthen the Soviet case. In the first place, the Fourteenth Amendment does not obligate the United States to refrain from claiming and collecting foreign debts, whatever the circumstances under which these debts were incurred. In the second place, the Provisional government debt was contracted before the Bolshevik revolution, when no "aid of insurrection or rebellion" was contemplated by the Provisional government. Finally, that government had been duly recognized by the United States, and the activities of its agents and representatives could not be technically described as "insurrection or rebellion"—whatever may have been the view taken at that time by the Soviet régime.

The problem of the Provisional government debt thus presents a number of facets. According to international law, the United States has a good case against the Soviet government, which is legally responsible for debts contracted by its predecessors on behalf of the Russian state. In the light of practical politics, however, this case is by no means equally clear-cut. The gist of the matter is that the United States acted from November 7, 1917 to March 4, 1921 in the expectation that the anti-Soviet forces would eventually defeat the Soviet régime and would then acknowledge responsibility for

the obligations of the Provisional government. This expectation was dashed by the triumph of Bolshevism. In the language of the racing track, the United States placed its bet on the wrong horse. Whether this bet is worth carrying on the books after recognition is largely a question of policy. Literal insistence on settlement of the Provisional government debt will unquestionably create ill-feeling between the two countries. While the United States might extract acknowledgement of the debt from the Soviet government, thus scoring a legal victory, its success in collecting the debt itself appears extremely doubtful. It must consequently choose between the alternatives of insisting on the letter of the law—and probably failing to obtain its pound of flesh—or wiping out an already worthless debt for the sake of consolidating political and economic relations with the Soviet Union.

SOVIET COUNTER-CLAIMS

Should the United States insist on payment of the Provisional government debt, the Soviet government will doubtless press its counter-claims for destruction of lives and property during the American occupation of Murmansk and Archangel in 1918-1919. The amount of damage has never been specified by Soviet authorities and would probably be relatively slight. Soviet spokesmen have frequently drawn an analogy between American aid to White Russian forces in North Russia and the *Alabama* case. It will be recalled that the United States in that case had brought claims against Great Britain for depredations on American commerce committed by the *Alabama* and other Confederate vessels during the Civil War, contending that Great Britain had not performed its duties as a neutral by failing to prevent the fitting out in, and the departure of these vessels from, British ports and the use of such ports as bases of operations. By the Treaty of Washington of May 8, 1871 the British government agreed to an expression of regret for the escape of the *Alabama* and other vessels from British ports and for the depredations committed by them, and to reference of the controversy to an arbitral tribunal. This tribunal, on September 14, 1872, awarded to the United States \$15,500,000, which was duly paid. The *Alabama* case, however, does not appear to offer a sound analogy to Soviet claims against the United States. Great Britain, which recognized the United States government and had normal diplomatic relations with it, had failed to prevent the rendering of aid to states in open rebellion against that government. By contrast, the United States had recognized the Provisional government, against which the Soviet forces

39. Mr. Lansing, Secretary of State, to Mr. Leffingwell, Assistant Secretary of the Treasury, February 25, 1918. *Ibid.*, p. 108.

40. "Eshe o Sovetsko-Amerikanskoi Torgovli," cited.

had rebelled, and had not accorded recognition to the Soviet régime. While it had also abstained from recognizing the local White governments of Murmansk and Archangel, to which it rendered assistance, there is little doubt that it regarded them as local successors to the Provisional government. Under the circumstances, the Soviet government does not appear to have a strong legal case against the United States, although some amicable adjustment might be reached to meet Soviet claims.

PRIVATE AMERICAN CLAIMS

The United States, in addition to its claim for the Provisional government debt, also has on file private American claims against the Soviet government totaling \$441,000,000. These claims have not been officially itemized, but it is a matter of general knowledge that they include such claims as that of the National City Bank for credits granted the Tsarist government in 1916-1917, aggregating \$91,000,000 without interest, and those of the Harvester Company, the Singer Sewing Machine Company, the Gillette Safety Razor Company and other American concerns, whose property in Russia—whether real estate, plants or bank balances—was nationalized by the Soviet government. Several attempts have been made to settle these claims through private negotiations with the U.S.S.R. Conversations between Mr. Mitchell, then president of the National City Bank, and Soviet representatives in Paris in 1927 proved unsuccessful, largely because the bank refused to grant credits to the Soviet government as a direct *quid pro quo* for Soviet acknowledgment of responsibility for Tsarist indebtedness. On October 9, 1928, however, an arrangement was reached by the Amtorg Trading Corporation and the International General Electric Company, which provided that, if the Soviet government placed orders for materials and equipment with the company prior to October 1, 1935, aggregating not less than \$25,000,000, the International General Electric and the General Electric Companies would abandon all

claims against the U.S.S.R. arising prior to January 1, 1927. The Soviet government has frequently offered to pay additional interest on credits extended by American concerns holding claims against Russia, this interest to be used for gradual repayment of their claims. Such an arrangement would be far more satisfactory to the Soviet Union than an outright agreement to repay American claims, since the latter would give Germany an opportunity to demand equal treatment for its nationals under the Rapallo treaty of 1922.⁴¹

SUMMARY

Recognition of the Soviet government has as yet failed to justify either the sanguine expectations of its advocates or the gloomy prophecies of its opponents. Establishment of diplomatic relations, while it has terminated an anomalous situation, has not materially increased Soviet purchases in this country, which continue to depend on the extension of substantial long-term credits guaranteed by the American government; these, in turn, have been made contingent on settlement of Russia's indebtedness to the United States government and of the claims of American citizens. At the same time recognition has not noticeably stimulated the importation of Soviet goods competing with similar American commodities, nor has it given an impetus to Communist propaganda. The development of Soviet-American relations from the level of ordinary diplomatic intercourse to that of close political and economic cooperation depends, as in the past, on the measure of financial assistance which the United States is prepared to give the Soviet Union and on the willingness of the two countries to collaborate for the maintenance of peace, especially in the Far East.

41. The Rapallo treaty makes the following provision: "Germany renounces claims which have arisen through the application up to the present of the laws and measures of the R.S.F.S.R. to German nationals or to their private rights as well as to the rights of Germany and its constituent states against Russia, or from the measures otherwise adopted by the R.S.F.S.R. or its officials against German nationals or their private rights, provided that the government of the R.S.F.S.R. does not satisfy similar claims of other states." *League of Nations Treaty Series*, XIX (1923), p. 248.

APPENDIX

Soviet Foreign Trade, 1930-1933¹
(In Rubles)

	Exports	Imports	Balance
1930	1,036,000,000	1,059,000,000	— 23,000,000
1931	811,000,000	1,105,000,000	—294,000,000
1932	564,000,000	699,000,000	—135,000,000
1933	495,000,000	348,000,000	+147,000,000

1. Speech made by A. P. Rosengoltz, People's Commissar of Foreign Trade, on May 27, 1934, cited.

Soviet-American Trade 1924-1933²

	Imports from U.S.S.R.	Exports to U.S.S.R.	Total Trade	Balance in favor of U.S.
1910-14 (aver.)	\$24,604,000	\$20,865,000	\$45,469,000	—\$3,739,000
1924	8,168,801	42,103,713	50,272,514	33,934,912
1925	13,236,673	68,906,060	82,142,733	55,669,387
1926	14,121,992	49,905,642	64,027,634	35,783,650
1927	12,876,791	64,921,693	77,798,484	52,044,902
1928	14,024,525	74,091,235	88,115,760	60,066,710
1929	22,551,434	85,011,847	107,563,281	62,460,413
1930	24,385,786	114,398,537	138,784,323	90,012,751
1931	13,206,392	103,716,832	116,923,224	90,510,440
1932	9,735,411	12,640,891	22,376,302	2,905,480
1933	12,120,148	8,971,465	21,091,613	—3,148,683
Total	\$144,427,953	\$624,667,915	\$769,095,868	\$480,239,962

2. This table is based on United States customs statistics.

Share of Soviet Union in U. S. Foreign Trade³

	Exports to U.S.S.R.	Imports from U.S.S.R.
	(in per cent of total)	
1910-14	1.1	1.2
1928	1.4	0.3
1929	1.6	0.5
1930	3.0	0.8
1931	4.3	0.6
1932	0.8	0.7
1933	0.5	0.8

3. "Ten Years of Soviet-American Trade," *Economic Review of the Soviet Union*, June-July 1934.